

# REGULAR BOARD OF TRUSTEES MEETING MINUTES

TUESDAY, APRIL 26, 2005

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President Matthew B. Murphy, III called this meeting to order at 10:15 a.m. Other Board members present were Garrett Harbron, Douglas Kinser and Katherine Humphreys.

TRF staff present included Dr. William E. Christopher, Robert Newland, Lynette Farrell, Phil Barnes, Tom Davidson, Tom Abbett, Amy Maynard and Shelley Horner. Also in attendance were Steve Moberly of IRTA, MaryBeth Braitman of Ice Miller, John Renner of the Budget Agency, Brad Moore of the Finance Authority and Rod Ellcessor of ISTA.

An Executive Session was held. No formal actions were taken.

The Agenda was approved.

Garrett Harbron moved to approve the agenda. Katherine Humphreys seconded the motion. The motion carried.

The minutes of the March 30, 2005 meeting were approved as presented.

Katherine Humphreys moved to accept the Minutes. Garrett Harbron seconded the motion. The motion carried.

Phil Barnes reported on fixed income for the month of March. The Fed noted that the U. S. economy “continues to grow at a solid pace”. Increases in the producer price index, an increase of 0.7% in March, started to show up in consumer prices, March CPI ex-food and energy was +0.4%. Additionally, the spike in gasoline prices had a significant impact on inflation with actual CPI +0.6%. Business is beginning to regain its pricing power.

At the March 22<sup>nd</sup> meeting, the Fed increased the Fed Funds rate another 25 basis points, to 2.75%. This was the seventh consecutive FOMC meeting resulting in a Fed Funds increase. All sectors, other than cash, realized negative returns. Mortgage backed securities at -0.19% was the best performer while long credit securities were the worst performers. The uncertainty surrounding the automotive sector resulted in underperformance of lower grade industrials. The March LBA return was -0.51%. Alliance maintained their duration at 87% of the index and added 10% to MBS which helped performance. Had the funds for purchase of the MBS not come from the credit sector rather than short term, Alliance’s performance would have been even better. For the month, Alliance returned -0.40% and beat the index by 11 basis points. Alliance has outperformed the index in all reported time periods. Reams’ duration was 91% of the index and also included an increase in MBS. However, increases in long credit securities negated some of the benefit of the switch to MBS. Reams’ monthly return was -.58% or 7 basis points under the index. Reams underperformed the index for the quarter and slightly underperformed for the three and five year time periods. Taplin was 25% underweighted in MBS and 31% overweighted in corporate securities which more than offset the 82% of the index duration and 17% in maturities of less than one year. The sectors that had supplied good performance in previous months significantly hurt performance this month. Taplin’s March performance was -0.95% or 44 basis points below the index. However, Taplin remains the best performing manager in the one and three year time periods. Alliance’s outperformance pulled the total fixed income performance to 1 basis point above the index. Total fixed income is even with the index to the quarter and has exceeded the index in the one and three year time periods. The five year return is only 7 basis points below the index.

Steffanie Rhinesmith reported on equities for the month. For March and the 3<sup>rd</sup> quarter, markets ended lower across the board. Small cap stocks fell the furthest, down 2.86%, with mid cap stocks falling the least, returning -1.11%. In large and mid cap space, value and growth finished virtually even, however, small cap growth lost 1.5% more than small cap value. All sectors, with the exception of industrials lost value, with industrials managing only a .5% positive return.

In the large cap active portfolio, all managers out-performed their benchmark during the month. Earnest Partners performed exceptionally well for the month and quarter. They were our best performing manager for the month and the quarter, earning a positive 3.33% for the quarter. Last month, Earnest benefited from a large overweight and strong performance in Energy. This month, their out-performance was broader based, with strong stock selection in energy, consumer discretionary, industrials and information technology. Holt-Smith & Yates also finished the quarter strong, but not strong enough to recover from a weak quarter. Their March number was helped by strong performance from 5 of their 6 largest holdings. Overall, the large cap active portfolio finished down 1.03% for the month and 0.82% for the quarter, beating the S&P 500 by 74 and 133 basis points respectively.

In the passive and enhanced portfolio, PIMCO slightly under-performed for the month and quarter, hurt by the whipsaw in interest rates throughout the quarter. The good news is, we won't have to pay them this quarter! In total, the large cap portfolio returned -1.66% for the month and -2% for the quarter, slightly out-performing the S&P 500 in both time periods.

In the mid and small cap portfolios Franklin, uncharacteristically, notched their second month in a row of under-performance, although the discrepancy was just 32 basis points for the quarter. Meanwhile, all of our small cap managers turned in another month of strong relative performance, leading to a total out-performance of 3.88% for the quarter. Aeltus continues to get back in our good graces, helped by strong stock picking in their three largest sectors, Healthcare, Industrials and Information Technology. Brandywine and Ariel were not far behind in their relative out-performance, leading to a total small cap return of -1.47% for the month and -1.42% for the quarter, substantially better than the Russell 2000 Index. The total domestic equity portfolio finished down 1.61% for the month, 13 basis points better than the benchmark and lower 1.82% for the quarter, 17 basis points better than the S&P 1500.

International markets also finished lower for the month, down 2.47%, leading to a first quarter return of -0.48%. A few countries did see positive returns in their home markets, the largest being Italy, France, Switzerland and Japan, but the strengthening dollar turned all of those negative for U.S. investors. The consumer sectors, healthcare and industrials were all positive in home markets but not enough to outweigh the drag from energy, IT and materials. Bank of Ireland slightly out-performed the index, while Alliance essentially matched it, leading to a total international portfolio return of -2.37%, 10 basis points better than the EAFE Index. We have finished our site visits with our new managers as well as three of the five contracts. We believe we are on track to transition the assets the first week of May. Thank you to Tom Davidson for helping the contracting process run smoothly.

Overall, the total equity portfolio finished with a -1.77% return for the month and -1.49% for the quarter, slightly out-performing a weighted index for both time periods. The Total Fund for the month returned -1.24%, 12 basis points better than the benchmark, and finished down 1.06% for the quarter, 11 basis points better than the benchmark.

Bob Newland reported one new commitment (Escalate Capital I) for private equities during the month. This addition brings the total funded to \$194 Million – 95% of total. Brian Murphy indicated good returns – Indiana based companies, especially HKW up in returns. Bob reminded the board the Callan Associates contract is up for renewal May 31<sup>st</sup>.

Phil Barnes presented the Securities lending report. March securities lending income was \$326,767.76. The income was generated from lending 29% of the total lendable securities. Fixed income accounted for 45% of the income while international lending jumped to \$87m or 27% of the total income. The international lending increase was the result of the spring arbitrage in European equities. Domestic loans were collateralized at 102% and international loans at 105%. At 16% of the total loaned, Lehman Brothers was the largest single borrower.

Garrett Harbron moved to accept the investment reports. Douglas Kinser seconded the motion. The motion carried.

Tom Abbett presented the Expenditures report for the month of March 2005.

Katherine Humphreys moved to accept the Expenditures. Douglas Kinser seconded the motion. The motion carried.

Shelley Horner presented retiree payments for the month of May 2005.

Katherine Humphreys moved to accept the payments. Douglas Kinser seconded the motion. The motion carried.

Bob Newland presented the Investment Committee Meeting report. The committee reviewed the SMID candidates. The staff will interview the following firms: Ranier, Timesquare, Wells, and William Blair. The staff will then select finalists to appear before the Board.

The committee then reviewed the GTAA candidates. The staff will interview the following firms: BGI, Bridgewater, GMO, PIMCO, and UBS. As with the SMID semi-finalists, the staff will then select GTAA finalists to appear before the Board.

The committee discussed the Independent Fiduciary Services report about securities litigation. The committee recommends that staff, in conjunction with Ice, Miller, Donadio & Ryan, formulate a securities litigation policy. This policy will then be reviewed by the Board and if approved, it will then be added to the Fund's investment guidelines.

Finally, Bob Newland presented a recommendation for the Guaranteed Fund rate for the fiscal year 2005 - 2006. The proposed rate is derived from a formula developed by Garrett Harbron. The formula indicates the rate be at 6.00%. Staff recommends setting the Guaranteed Fund rate be 6.00%.

Garrett Harbron moved to approve the Guaranteed Fund rate be 6.00%. Douglas Kinser seconded the motion. The motion carried.

Dr. Christopher discussed the Administration and Personnel Committee Report and Director's Report. There are 50 full time employees, 3 intermittent and 2 vacant. We have 3 interns for the summer beginning in May.

Dr. Christopher presented a preliminary budget for the next fiscal year. This budget is 1.47% lower than the previous year's budget. The budget was built off of the actual expenses from this year.

Katherine Humphreys moved to approve the budget as presented. Garrett Harbron seconded the motion. The motion carried.

Dr. Christopher informed the board that TRF was invited by IPSI to join with PERF on legal services and human resources. Dr. Christopher asked permission to join in discussion on combining these services. The board agreed. Therese Koers, who is responsible for TRF's website, has been asked to be put through IPSI to be able to share her services between IPSI and TRF. The board agreed.

Dr. Christopher noted Bob and Lynette have assumed more responsibility and perhaps an increase in their salary should be looked into.

Dr. Christopher asked for his sick leave balance to be donated to the sick leave bank.

Dr. Christopher thanked the board for the opportunity to work with them and the board felt the same.

The next meeting was scheduled for June 7, 2005 at 10:00 a.m., with an Administrative/Personnel Committee meeting at 9:30 a.m. The Investment Committee meeting will be June 6, 2005 at 9:00 a.m.

The June meetings were tentatively scheduled for June 27 & 28, 2005.

Being no additional business, the meeting adjourned at 11:05 a.m.